

Vote Environment: Budget 2024 Initial Baseline Exercise Summary

Section 1: Overview

Summary of proposed operating baseline changes through Budget 2024

	Impact \$m increase/(decrease)					
	2023/24	2024/25	2025/26	2026/27	2027/28 & Outyears	Total
Total submitted for baseline reduction target	-	(49.100)	(49.100)	(49.100)	(49.100)	(196.400)
If required: total amount of targeted policy savings	-	(40.100)	(41.730)	(10.000)	(10.000)	(101.830)
Total amount of revenue options	-	-	-	-	-	-
Total savings/revenue proposed	-	(89.200)	(90.830)	(59.100)	(59.100)	(298.230)
cost pressure funding sought (not invited)	-	-	-	-	-	-
new spending sought	-	30.150	31.887	31.887	26.934	120.858
Total new funding sought	-	30.150	31.887	31.887	26.934	120.858
Net impact of all Budget 2024 proposals	-	(59.050)	(58.943)	(27.213)	(32.166)	(177.372)

Section 2: Alignment with Government Priorities

Government priorities for Vote Environment

All but one of the proposals for Vote Environment relate to cost savings and contribute to the Government's fiscal sustainability programme and Budget 2024 priority of delivering effective and fiscally sustainable public services.

The new funding sought for resource management reform directly contributes to the Budget 2024 priority of building for growth and prioritising private enterprise. This is Vote Environment's only new funding request.

Following the repeal of the Natural and Built Environment Act and Spatial Planning Act, the Government priorities for resource management reform comprise:

- introducing a one-stop-shop fast-track permitting and consenting regime to make it easier to consent certain projects
- changes to streamline and simplify the Resource Management Act 1991 (RMA), and make it easier to consent new infrastructure, allow farmers to farm, get more houses built and better enable aquaculture and other primary industries

- amending and developing national direction under the RMA to remove red-tape and provide councils, farmers, and landowners the tools, flexibility, and increased certainty they need to grow the economy while still achieving environmental outcomes
- ceasing implementation of Significant Natural Areas and reviewing the Natural Policy Statement for Indigenous Biodiversity
- replacing the RMA with new legislation based on property rights.

Government priorities for the environment beyond RM reform comprise:

- ensuring fit for purpose waste legislation and a better understanding of vulnerable landfills, as part of an ongoing focus on waste minimisation
- progressively building a more reliable and relevant evidence-base and data systems to assist decision-makers to make informed decisions, target interventions, and increase system efficiency
- better management of hazardous substances, to minimise their impact on human health and the environment.

The Government priorities for climate change are to:

- strengthen New Zealand's ability to adapt to the effects of climate change
- unlock private investment and partnerships in New Zealand's climate response
- take action to put and keep New Zealand on a path to meeting its climate targets
- strengthening international climate change engagement and cooperation
- drive a whole-of-government approach to New Zealand's climate response, including delivering the actions required to put New Zealand on a 'pathway to net zero'.

Much of the Ministry's existing expenditure is now directed at delivering the priorities listed above. Key areas of existing expenditure include:

- policy development and advice to support decision-making and progress on Government priorities
- necessary support for policy development, including legal advice and specialist engagement and project management support
- investment in foundational research and evidence, to target interventions and assist decision-makers to make informed decisions
- support to ensure Treaty obligations are met
- support for implementation, so intended Government outcomes are achieved through the roll-out of legislation and other policies
- non-departmental investments that support:
 - waste minimisation, an important contributor to emissions reduction
 - environmental improvement, including the Contaminated Sites Remediation Fund, Kaipara Moana Remediation, Waikato River Clean-Up

Fund, Fresh Water Improvement Fund and Rotorua Lakes Restoration Programme

- non-departmental spending directed to the Climate Change Commission (CCC) and Environmental Protection Authority (EPA) to enable them to undertake their required functions under relevant legislation.

Existing expenditure also includes performing mandatory legislative obligations and meeting international commitments. These include those under the:

- Climate Change Response Act 2002 (e.g. setting of emissions budgets and emissions reduction plans)
- RMA (e.g. performance of statutory functions, including monitoring council and system performance)
- various Treaty Settlements, Deeds and Agreements
- Environmental Reporting Act 2015 (e.g. delivery of six-monthly reports)
- various international agreements
- Public Services Act 2020 (e.g. regulatory stewardship responsibilities)
- Public Finance Act 1989 (e.g. annual reports).
- Hazardous Substances and New Organisms Act 1996 (e.g. approvals by the chief executive)
- Environment Act 1986 (e.g. advising on significant environmental impacts of public or private sector proposals).

Recent trends in expenditure and FTE growth over the past five years

The Ministry was smaller in 2017/18 (\$68.1m departmental funding, \$87.3m when inflation-adjusted) but performed significantly fewer functions. While some of the growth since 2017 was due to time-limited reforms in RM, freshwater, waste minimisation and climate change, the Ministry's work now also covers:

- supporting and operating new climate change architecture, including developing the Emissions Reduction Plan and the National Adaptation Plan, and oversight of new entities and programmes, including the Climate Change Commission, the Carbon Neutral Government Programme, and the Interdepartmental Executive Board for Climate Change
- supporting the New Zealand Emissions Trading Scheme, allocation levels/carbon unit caps and ETS carbon unit auctions
- severe weather event recovery, regional support, and responses to other emergencies, including the Kaikoura earthquake and per- and poly-fluoroalkyl substances (PFAS) chemical contamination
- developing and supporting multiple national direction instruments, including the national policy statements on freshwater and urban development
- implementing the Environmental Reporting regime (with Stats NZ) and improvements to the environmental knowledge system
- leadership of the All of Government Climate Data Initiative

- fast-track consenting and Jobs for Nature
- a greater focus on policy implementation and delivery enablement by working with councils, iwi/Māori, the primary sector, not-for-profit and the science community
- a more comprehensive waste management programme, including new product stewardship schemes, changes to the Waste Disposal Levy and more robust compliance monitoring and enforcement across many more landfills
- coordination of the Local Government Steering Group and cross-agency working groups to test policy design and implementation.

Key features of Vote Environment before baseline savings target are implemented

\$m	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Departmental Output Appropriations	68.1	72.1	91.7	118.7	166.4	222.0	267.9	176.9	155.9	149.4	146.7
Non-Departmental Appropriations (Crown excl ETS)	59.3	57.0	76.0	117.1	127.2	142.6	235.2	227.3	142.5	98.3	97.3
Non-Departmental Appropriations (waste-levy & PS tyres)	30.1	34.0	30.4	28.8	46.3	65.2	174.7	319.6	353.6	390.0	392.7
Total Appropriations (excl ETS)	157.5	163.0	198.1	264.7	339.8	429.7	677.8	723.8	652.0	637.7	636.7

**Source is October Baseline Update appropriations (adjusted for December 2023 mini-Budget reductions). Emissions Trading Scheme (ETS) non-cash related appropriations are excluded due to their size and the fact these are outside the control of the Ministry.*

The table above does not include the baseline savings target reductions.

Total funding for Vote Environment after the mini-Budget peaks at \$724m in 2024/25 before declining to \$637m by 2027/28.

Departmental funding falls significantly: it peaks in 2023/24 at \$268m and then falls by 45 percent over four years to \$147m in 2027/28. This sees the Ministry's Environment departmental appropriation return to levels similar to 2021/22, and in inflation adjusted terms, closer to what it was in 2020/21.

Non-Departmental funding is comparatively more stable: it peaks at \$547m in 2024/25 and then declines to \$490m in 2027/28. While the total is relatively stable, there are important changes to the non-departmental funding profile across the forecast period:

- By 2027/28, non-departmental funding including the waste levy makes up around three quarters of the total Vote.
- The waste levy and product stewardship tyres scheme are ring-fenced appropriations and are also excluded from baseline savings options but were included in the eligible baseline calculation for the savings target. By 2027/28 they make up 62 percent of the total Vote.
- Excluding the waste levy and tyres scheme (which grows over the period), non-departmental appropriations decline by 59 percent from 2023/24 to 2027/28. This is mostly due to time-limited funding ending for Jobs for Nature, and Waste emissions reductions and Waste infrastructure projects.

By the end of the forecast period, the Waste levy and tyres scheme fees are over half the Ministry's the eligible baseline. As the waste levy is the subject of targeted savings the accessible baseline for finding baseline savings is halved. This effectively doubles the Ministry's baseline reduction target from 7.5% to 15%.

Strategic approach to identifying savings

The baseline reduction exercise has included:

- oversight from the Ministry's executive team
- each Ministry business unit identifying savings options and an internal team looking at options for cross-Ministry efficiency saving options
- options provided to Ministers with implications and trade-offs identified
- integrating all other related deliverables to ensure consistency including the baseline review, RM Budget 24 bid, and work on the Ministry's strategic priorities and performance targets
- engagement with Crown Entities (CCC, EPA).

The following table provides a ranking of preferred savings proposals and invited spending proposals.

	Ranking of savings proposals	Ranking of spending proposals
1.	Environment Targeted Savings - Waste Disposal Levy	Resource management reform - replacement
2.	Environment Baseline Savings - Back-office enabling functions and services	
3.	Environment Baseline Savings - Partnerships and Engagement	
4.	Environment Baseline Savings – Freshwater	
5.	Environment Baseline Savings – Waste Minimisation	
6.	Environment Baseline Savings - Climate Change	
7.	Environment Baseline Savings – Climate Change Commission	
8.	Environment Baseline Savings – Evidence and Data	

Section 3: Planning for Managing Within Baselines

Operating cost pressures

The Ministry has identified potential cost pressures of s 9(2) over the forecast period:

Cost pressure/driver (\$'000)	2023/24	2024/25	2025/26	2026/27	2027/28	Total
s 9(2)(f)(iv)						

Approach to managing cost pressures

The Ministry has put in place a range of measures to reduce spending in 2023/24 and guide us towards becoming a smaller and more efficient organisation:

- reduced the size of the Ministry's senior leadership team and achieved cost savings
- slowed recruitment
- managing down forecast contractor and consultancy spend, expected to continue to fall in 2024/25
- stopped work that is not aligned with the government's work programme.

The Ministry has worked with Ministers to understand their work programme priorities and identify savings options. A key priority is now resetting the work programme based on the new Government's priorities and in line with a smaller appropriation.

Various opportunities to find efficiencies were identified by the Ministry's recent operating model review and will be implemented alongside the new, smaller work programme.

The Ministry is also taking opportunities to reduce property footprints as they arise.

Mitigating delivery risks will get increasingly difficult later in the forecast period as unfunded cost pressures continue to rise while the appropriation continues to shrink.

Risks to delivering Government priorities

Savings proposals will see a material reduction in capacity and capability, degrading the Government's ability to respond to New Zealand's varied environmental challenges.

Implementing the required savings is expected to have the following impact on the Ministry's functions:

- abolishing the Spatial Planning Policy Office and reducing our spatial planning capability
- a significant reduction in our RM policy and implementation capability
- a reduction in our technical planning capability
- a reduction in our ability to maintain and operate the RM system
- a reduction in science, evidence and data capability and investment to support robust decision-making and meaningful measurement of progress and performance toward outcomes
- a reduction in our communications and engagement capacity, including working with Māori, local government, and industry to enable the delivery of policy
- a reduction in climate change policy capacity
- a reduction in urban and infrastructure policy capacity
- a reduction in systems thinking, behavioural change and outlook projection capability
- proportionate decreases in systems and services supporting our regulatory work.

If the RM budget bid is unsuccessful then significant reprioritisation of the remainder of the work programme will be required, affecting all portfolios within Vote Environment.

Not funding this initiative would also have material detrimental impacts on core capability for central services funded by overheads that was part of Budget 22 funding returned in the mini-Budget and further reduced by Budget 24 savings targets.

Non-departmental savings initiatives will reduce funding for regional and community-based environmental organisations that is likely to also impact their staffing levels.

There is a key strategic risk that implementing cost savings reduces deferred investment in improving data and evidence needed to monitor environmental performance. Retaining funding in this area has been prioritised throughout the cost savings exercise but this risk will need to keep being closely monitored.

Environmental Protection Authority (EPA)

2023/24 is the EPA's seventh consecutive deficit year, with 2023/24 budgeting a deficit of \$3.981 million. Expenses have been larger than funding due to new functions and Ministerial expectations being added over time as well as inflationary pressures. Budget 2023 gave some relief through a baseline uplift, though this was substantially smaller than that recommended by an independent funding and functional review.

Bringing back to a future breakeven position requires substantial cost cutting. The proposal is to:

- target a breakeven position for 2024/25 and beyond

- identify immediate savings through:
 - downscaling compliance-engagement & sector education-based activity such as through Fielddays and engagement with Young Farmers
 - combat future inflation through downsizing offices and the removal of staff car parks
 - substantially reduce investment in the Emissions Trading Register. This asset is close to end of life so this will require the EPA to cease long term investment into upgrading the Register and instead shift to 'maintenance only' mode.
- use the outcomes of the ongoing *Strategic Review* and the *Operating Model* (expected to be completed and implemented from 1 July 2024) to inform the approach for ensuring the EPA becomes cost-neutral to the Crown.

The EPA can make savings to reduce expenditure and operate within existing baseline, but this will not reduce current planned Crown Funding.

Climate Change Commission (CCC)

Like the Ministry, the CCC faces cost pressures which, in the absence of an opportunity to submit a budget bid, will have to be absorbed within their smaller appropriation. Cost pressures include:

- unfunded Ministerial direction under section 5K of the Climate Change Response Act 2002 (CCRA)
- potential for increased legal spend from anticipated litigation related to the Commission's statutory deliverables, especially if cost pressures lead to reduced quality of statutory deliverables (and the current action under consideration by the Court of Appeal which may necessitate Supreme Court follow up)
- increased costs from a potential additional Board member and additional Board meetings
- general cost pressure due to inflation and wage pressures.

The CCC is forecasting a deficit in 2024/25. Absorbing these costs pressures within a reduced baseline budget will likely increase the deficit and exhaust the CCC's retained earnings within the next two years.